

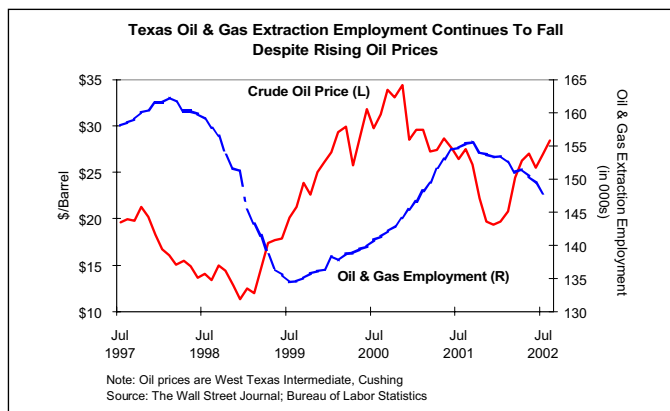
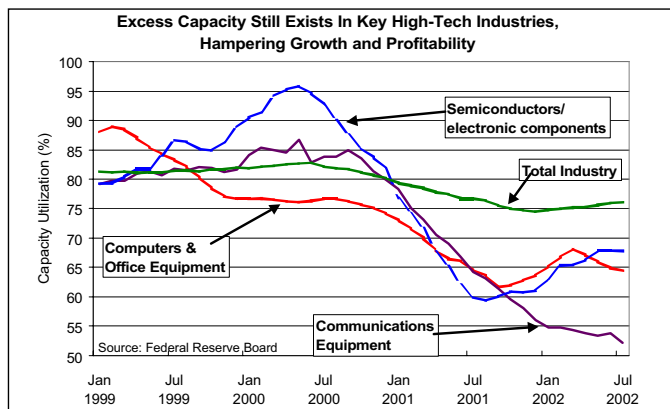
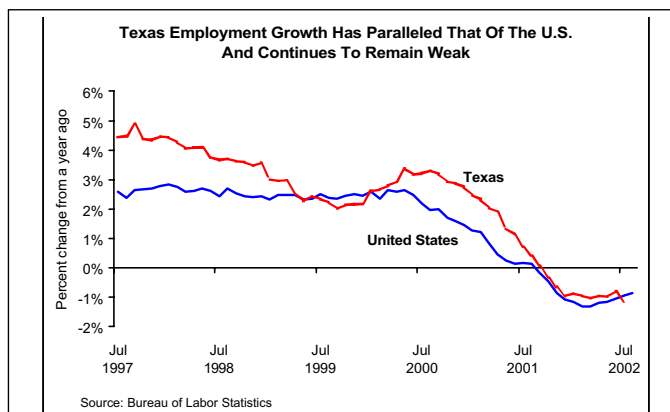
FDIC State Profile

WINTER 2002

Texas

The Texas economy, which showed signs of an incipient recovery in the spring, began to stall during the summer months. Weaknesses in primary economic drivers are expected to continue in the near term.

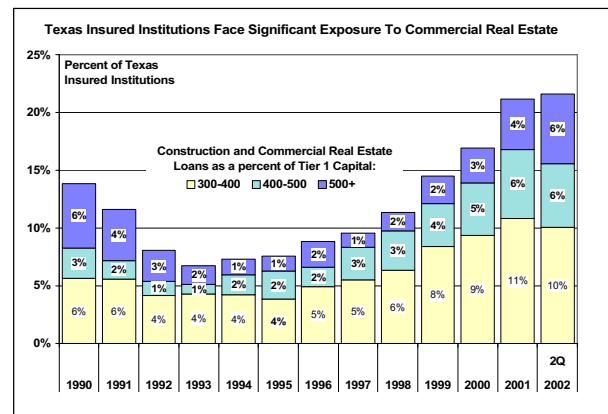
- Texas employment growth remains negative on a year ago basis as of July 2002 (-0.9 percent). See **top chart**. Texas' unemployment rate has increased over 2 percent since reaching its low of 3.9 percent in December 2000, and now stands at 6 percent (July 2002), slightly higher than the U.S. unemployment rate of 5.9 percent that same month.
- Texas has lost more jobs in the past 12 months, on an absolute basis, than any other state. Between July 2001 and July 2002, Texas lost 107,000 jobs, followed by Georgia (84,000), Illinois (84,000), and New York (79,000).
- The state's economic weakness is directly linked to problems in the high-tech industries of telecommunications, semiconductors, and personal computers, and indirectly to the stock market woes and lack of general business investment. Overcapacity in these industries (see **middle chart**) is hampering capital expenditures and constraining pricing power, revenue growth, and profitability.
- Despite over a 40 percent increase in oil prices since January, activity in Texas' energy sector remains flat (see **bottom chart**). The oil industry continues to consolidate. Also, the uncertainty surrounding a possible attack on Iraq is chilling expansion plans and keeping oil prices above economic fundamentals, which is hurting the downstream energy industries of refining and petrochemicals.
- Although many commodity prices have shown recent increases caused by drought-induced production declines, prices for cattle and cotton – the cornerstone of the Texas agricultural industry – have not. Ranchers are liquidating herds due to lack of water and rising feed costs and high global cotton production is sustaining record low cotton prices.
- Agricultural land values remain relatively strong during this period of depressed commodity prices. Recent USDA research indicates that 23 percent of Prairie Gateway land values, which includes most of Texas, are attributable to government payments since the 1996 farm bill. This increased dependence on subsidies could pose problems for agricultural lenders if payment levels should decline in the future at the same time commodity prices are low.



State Profile

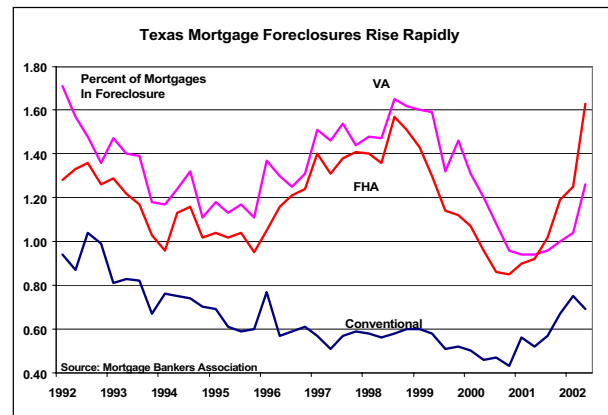
Texas insured institutions are reporting the highest commercial real estate exposure ever at a time when Texas commercial markets are showing signs of stress.

- Texas insured institutions report the highest level of commercial real estate loans (non residential real estate plus construction and development) on record. (See **top chart**.)
- At 25.5 percent the **Dallas** metro area has the highest office vacancy rate in the nation. Although high throughout the 1990s, recent slowdowns in the telecommunications industry have sent suburban rates up 9.3 percentage points over the last 3 years.
- **Austin** has the second highest office vacancy rate in the country as of June 30, 2002 at 24.9 percent. Coinciding with the downturn in high technology and telecommunications, Austin office vacancies surged 18.7 percent in over the past three years.



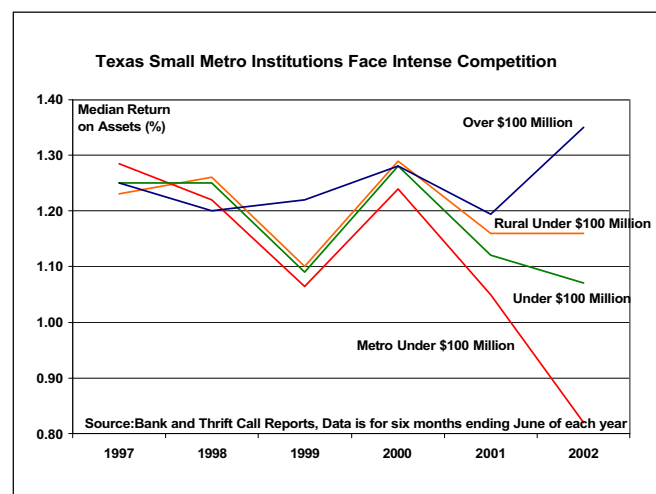
Residential foreclosure rates begin to rise and could affect credit quality if weak economic conditions persist.

- Texas foreclosures are at a 30-month high. Recent surges amidst historically low interest rates and continued price appreciation suggest potential deterioration in asset quality going forward (See **middle chart**).
- Existing home sales fell for the fourth month in a row in North Texas. August sales were down 10 percent and the number of homes on the market has risen to its highest level in almost ten years. Likewise the August 2002 Houston home inventory was the largest since July 1995. Swelling inventory in Austin, especially in the higher priced range, is putting pressure on home prices.
- Despite these trends, Texas insured institutions have not sustained similar weakness in mortgage portfolios.



Small metro banks face intense competition and profit pressures.

- Insured institutions in metro areas with assets less than \$100 million (small metro) continue to show signs of competitive pressure. As seen by the bottom chart, the median ROA for small metro banks (the lowest level in 10 years) is lower than banks over \$100 million or small rural banks.
- Non-interest expense appears to be a major culprit in lower profitability as small metro banks report a non interest expense to total assets ratio 92 basis points higher than banks over \$100 million and 106 basis points higher than small rural banks.



State Profile

Texas at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98	Sep-97
Institutions (#)	672	692	724	759	808	847
Total Assets (in thousands)	151,228,645	140,654,390	162,007,657	175,995,582	178,596,140	223,245,911
New Institutions (# < 3 years)	16	18	26	32	26	12
New Institutions (# < 9 years)	47	45	41	42	36	29
Capital						
Tier 1 Leverage (median)	9.25	9.10	9.32	9.20	9.20	9.25
Asset Quality						
Past-Due and Nonaccrual (median %)	2.16%	2.06%	1.81%	1.95%	2.16%	2.16%
Past-Due and Nonaccrual ≥ 5%	98	96	76	91	134	120
ALLL/Total Loans (median %)	1.27%	1.22%	1.21%	1.20%	1.27%	1.31%
ALLL/Noncurrent Loans (median multiple)	1.58	1.78	2.11	1.85	1.87	1.75
Net Loan Losses/Loans (aggregate)	0.36%	0.35%	0.36%	0.46%	0.40%	0.32%
Earnings						
Unprofitable Institutions (#)	39	41	31	37	44	27
Percent Unprofitable	5.80%	5.92%	4.28%	4.87%	5.45%	3.19%
Return on Assets (median %)	1.21	1.14	1.31	1.21	1.24	1.29
25th Percentile	0.75	0.79	0.97	0.84	0.90	0.96
Net Interest Margin (median %)	4.55%	4.51%	4.83%	4.53%	4.69%	4.78%
Yield on Earning Assets (median)	6.42%	7.82%	8.24%	7.66%	8.03%	8.09%
Cost of Funding Earning Assets (median)	1.94%	3.33%	3.39%	3.09%	3.31%	3.29%
Provisions to Avg. Assets (median)	0.18%	0.14%	0.14%	0.13%	0.12%	0.09%
Noninterest Income to Avg. Assets (median)	0.90%	0.88%	0.90%	0.91%	0.89%	0.89%
Overhead to Avg. Assets (median)	3.38%	3.39%	3.47%	3.37%	3.35%	3.38%
Liquidity/Sensitivity						
Loans to Deposits (median %)	62.33%	61.46%	61.63%	57.58%	56.06%	55.24%
Loans to Assets (median %)	54.28%	53.87%	53.79%	51.12%	49.45%	48.53%
Brokered Deposits (# of Institutions)	46	39	30	31	27	27
Bro. Deps./Assets (median for above inst.)	2.12%	1.54%	3.49%	2.67%	2.09%	2.02%
Noncore Funding to Assets (median)	15.99%	16.17%	15.44%	14.51%	13.63%	12.56%
Core Funding to Assets (median)	72.47%	72.17%	73.59%	74.49%	74.96%	76.27%
Bank Class						
State Nonmember	297	303	319	338	361	388
National	333	346	361	382	404	417
State Member	42	43	44	39	43	42
S&L	0	0	0	0	0	0
Savings Bank	0	0	0	0	0	0
Mutually Insured	0	0	0	0	0	0
Asset Distribution						
\$0 to \$100 million	421	434	476	517	568	604
\$100 to \$250 million	163	173	165	164	160	164
\$250 to \$500 million	39	43	47	44	44	42
\$500 million to \$1 billion	28	23	20	18	17	18
\$1 to \$3 billion	14	14	10	9	10	9
\$3 to \$10 billion	6	4	4	4	7	7
Over \$10 billion	1	1	2	3	2	3
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets		
No MSA	358	31,119,909	53.27%	20.58%		
Dallas TX PMSA	73	20,100,471	10.86%	13.29%		
Houston TX PMSA	44	16,143,514	6.55%	10.67%		
Ft Worth-Arlington TX PMSA	35	5,296,440	5.21%	3.50%		
San Antonio TX	17	35,271,405	2.53%	23.32%		
Austin-San Marcos TX	16	1,497,106	2.38%	0.99%		
Killeen-Temple TX	12	2,349,268	1.79%	1.55%		
Longview-Marshall TX	12	1,558,357	1.79%	1.03%		
McAllen-Edinburg-Mission TX	11	6,784,121	1.64%	4.49%		
Lubbock TX	10	5,330,231	1.49%	3.52%		
Waco TX	10	1,489,177	1.49%	0.98%		
Corpus Christi TX	8	1,067,392	1.19%	0.71%		
Brazoria TX PMSA	7	753,606	1.04%	0.50%		
Sherman-Denison TX	7	1,080,816	1.04%	0.71%		
Galveston-Texas City TX PMSA	7	1,533,880	1.04%	1.01%		
Tyler TX	6	2,146,943	0.89%	1.42%		
Odessa-Midland TX	6	1,085,517	0.89%	0.72%		
Laredo TX	5	9,050,417	0.74%	5.98%		
Brownsville-Harlingen-San Benito TX	4	772,397	0.60%	0.51%		
El Paso TX	4	1,286,904	0.60%	0.85%		
Wichita Falls TX	4	619,136	0.60%	0.41%		
Texarkana TX-AR	3	621,358	0.45%	0.41%		
Beaumont-Port Arthur TX	3	222,194	0.45%	0.15%		
Amarillo TX	3	1,829,027	0.45%	1.21%		
Abilene TX	3	757,404	0.45%	0.50%		
San Angelo TX	2	454,898	0.30%	0.30%		
Bryan-College Station TX	1	331,328	0.15%	0.22%		
Victoria TX	1	675,429	0.15%	0.45%		